

MICHIGAN SCOR INSTRUCTIONS (Form U-7)

I. Introduction

SCOR registration offers an optional method of registration for corporations (or other recognized legal entities) issuing securities exempt from registration with the Securities and Exchange Commission ("SEC") under rule 504 of Federal Regulation D. SCOR registration is intended to reduce the costs and burdens of raising capital for small business without sacrificing investor protection, and to maximize the amount of offering proceeds available to the issuer for investment in the business. Issuers eligible for this optional registration method must use the Form U-7 (or SEC Model A) as the disclosure document for the offering. It should be noted that neither the fact that an application for registration has been filed under Section 304a nor the fact that an issuer's security is effectively registered constitutes a finding by the administrator of the Michigan Office of Financial and Insurance Services (the "Office") that the Form U-7 or any other document filed under Section 304a is true, complete, and not misleading. Neither any such fact nor the fact that an order has been issued by the Office means that the Office has passed in any way upon the merits or qualifications of, or recommended or given approval for any security. It is suggested that the Company consult with an experienced securities attorney and a qualified accountant. Any comments that an applicant may receive are not a recommendation by the Office of the accuracy or adequacy of the disclosure document. The burden of compliance with the Michigan Uniform Securities Act and Rules is on the Company. If a company intends on utilizing the SCOR registration the following must be submitted:

- A. Fully completed and executed Form U-7 and a Form U-1 (SCOR) Uniform Application to Register Securities.
- B. All exhibits required by the rule.
- C. Consent to Service of Process. The U-2 and U-2(a) are acceptable.
- D. A filing fee of 1/10 of 1% of the maximum aggregate offering price at which the registered securities are to be offered in this state, with a minimum fee of \$100.00 and a maximum fee of \$1,000.00.

II. Qualification for Use of Form U-7

To be eligible to use Form U-7, a Company must comply with each of the following requirements:

- A. The Company must be a corporation or other recognized legal entity organized under the laws of one of the states or possessions of the United States which engages in or proposes to engage in a business. "Blind pool" offerings and other offerings for which the specific business or properties cannot not be described are ineligible to use Form U-7.
- B. SCOR registration shall not be utilized by the following issuers and programs unless written permission is obtained from the Office based upon a showing that adequate disclosure can be made to investors using the SCOR registration format: (i) Holding companies, companies that have a principal purpose of owning stock in, or supervising the management of, other companies; (ii) Portfolio companies, such as real estate investment trusts; (iii) Issuers with complex capital structures; (iv) Commodity pools; (v) Equipment leasing programs; (vi) Real estate programs.
- C. The securities may be offered and sold only on behalf of the Company, and Form U-7 may not be used by any selling security-holder (including purchasing underwriters in a firm commitment underwriting) to register his securities for resale.
- D. The offering price for common stock (and the exercise price, if the securities are options, warrants or rights for, and the conversion price if the securities are convertible into, common stock) must be equal to or greater than \$5.00 per share, unless the administrator authorizes a lower price per share. By execution of the application and filing of the Form U-7, the Company thereby agrees with the Office that the Company will not split its common stock, or declare a stock dividend, for two years after effectiveness of the registration; provided, however, that in connection with a subsequent registered public offering, the Company may upon application and consent of the Office take such action.
- E. The Company may engage selling agents to sell the securities. Commissions, fees, or other remuneration for soliciting any prospective purchaser in this state in connection with this offering may only be paid to persons who, if required to be registered, the Company believes, and has reason to believe, are appropriately registered in this state.
- F. This form shall not be available for the securities of any Company if the Company or any of its Officers, Directors, 10% stockholders, promoters or any selling agents of the securities to be offered, or any officer, director or partner of such selling agent: (i) has filed a registration statement which is the subject of a currently effective registration stop order entered pursuant to any federal or state securities law within 5 years prior to the filing of the application for registration hereunder; (ii) has been convicted within five years prior to the filing of the application for registration hereunder of any felony or misdemeanor in connection with the offer, purchase or sale of any securities or any felony involving fraud or deceit, including, but not limited to, forgery, embezzlement, obtaining money under false pretenses, larceny, or conspiracy to defraud; (iii) is currently subject to any state administrative enforcement order or judgment entered by that state's securities administrator or the Securities and Exchange Commission within five years prior to the filing of the application for SCOR registration hereunder or is subject to any state's administrative enforcement order or judgment in which fraud or deceit, including but not limited to making untrue statements of material facts and omitting to state material facts, was found and the order or judgment was entered within 5 years prior to the filing of the application for registration hereunder; (iv) is

subject to any state's administrative enforcement order or judgment which prohibits, denies, or revokes the use of any exemption from registration in connection with the offer, purchase, or sale of securities; (v) is currently subject to any order, judgment, or decree of any court of competent jurisdiction temporarily or preliminarily restricting or enjoining, or is subject to any order, judgment or decree of any court of competent jurisdiction, permanently restraining or enjoining, such party from engaging in or continuing any conduct of practice in connection with the purchase or sale of any security or involving the making of any false filing with the state entered within five years prior to the filing of the application for registration hereunder; (vi) the prohibitions of paragraphs (i) - (iii) and (v) above shall not apply if the person subject to the disqualification is duly licensed or registered to conduct securities related business in the state in which the administrative order or judgment was entered against such person or if the broker-dealer employing such party is licensed or registered in this state and the Form B-D filed with this state discloses the order, conviction, judgment, or decree relating to such person. No person disqualified under this subsection may act in a capacity other than that for which the person is licensed or registered; and (vii) any disqualification caused by this section is automatically waived if the state securities administrator or agency of the state which created the basis for disqualification determines upon a showing of good cause that it is not necessary under the circumstances that registration be denied.

If any of the circumstances in clauses (ii), (iii) or (v) of the preceding paragraph has occurred more than five years from the date of the application for registration hereunder, these circumstances should be described in response to Question 45 as a Miscellaneous Factor.

- G. Use of the Form U-7 is available to any offering of securities by a Company, the aggregate offering price of which within or outside this state shall not exceed \$1,000,000.00, under the federal exemption under SEC Rule 504. The Form U-7 is not available to a Company that is an investment company (including mutual funds) or is subject to the reporting requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934.
- H. If the Company files with the SEC a Form D of Regulation D under the Securities Act of 1933 claiming exemption of the offering from registration under such act pursuant to Rule 504, a copy of the Form D with appropriate state signature pages shall be filed with the Bureau at the same time as filed with the SEC.

III. General Requirements for Use of Form

- A. The Form U-7, when properly completed, signed and submitted, together with the exhibits schedule below and a Form U-1 (SCOR) Uniform Application to Register Securities, constitutes an application for registration. A signed original of the Form should be filed, together with an executed Form U-1 (SCOR) and a signed original of the consent to service of process. The form U-1 (SCOR) should set forth the amount of securities being registered in Michigan and the method of calculating the filing fee, and there should be enclosed a check for the amount of the filing fee made payable to the "State of Michigan". A SCOR registration becomes effective when the Bureau so orders. The registration is effective for one year. Once registration is effective, the effective date should be noted at the bottom of the cover page of Form U-7. Any changed or revised Disclosure Document must also be signed.
- B. Each question in each paragraph of the Form U-7 should be responded to. If the question or series of questions is inapplicable, so indicate. Each answer should be clearly and concisely stated and in the space provided; however, notwithstanding the specificity of the questions, responses should not involve nominal, immaterial or insignificant information.
- C. If the provided space is insufficient, additional space should be created by cutting and pasting to the Form U-7 to add more lines or by putting the Form U-7 on a word processor and adding more lines in this or a similar manner. Irrespective of which method is used, care should be taken to assure that the Form U-7 is accurately and completely reproduced. Smaller type size should not be used, and script or italic type styles should be avoided.
- D. There must be submitted to the Office an opinion of an attorney licensed to practice in a state or territory of the United States that the securities to be sold in the offering have been duly authorized and when issued upon payment of the offering price will be legally and validly issued, fully paid and nonassessable and binding on the Company in accordance with their terms. In addition, such opinion must state that the Company has met all of the requirements of the rule.
- E. The Disclosure Document of Form U-7 constitutes the offering circular or prospectus and the Form U-7 once filled out, filed and declared effective may be reproduced by the Company by copy machine or otherwise for dissemination to potential investors. (The Company is cautioned to control the copying and distribution to preclude inaccurate or unreadable copies from being used and to prevent other unauthorized uses for which the Company may nevertheless be deemed responsible.) These Instructions are not part of the Disclosure Document and should not be included. Reproduced copies should be on white paper and should be stapled or secured in the left margin without a cover of any type.
- F. The Company should expect that the Office may have comments and questions concerning the answers set forth on the Form U-7 and that changes may be required to be made to the answers before the registration is declared effective. Comments and questions may either be included in a letter or made by telephone communication initiated by the Bureau in response to the filing.

- G. No offers or sales may be made in this state until the Office has declared the registration effective. To make offers or sales before the registration is effective could lead to a stop order or other proceeding which would preclude use of the Form U-7 in this or any other state and could give rise to a right of rescission by investors enforceable against management, principal stockholders and the selling agents as well as the Company. When the registration has been declared effective in this state, offers and sales may be made in this state even though registration in other states has not been declared effective. This Disclosure Document must be delivered to each investor before any offer or sale is made, e.g. (a) before any order is entered; (b) any subscription agreement is signed; or (c) any part of the purchase price is received. The registration statement will be effective only for the same time period specified in the order of the Office, however, no registration statement shall remain effective for a period greater than one year.
- H. After the registration has been declared effective, and while the offering is still in progress, if any portion of the Form U-7 should need to be changed or revised because of a material event concerning the Company or the offering to make it accurate and complete, it shall be so changed, revised, or supplemented. If changed, revised or supplemented (including an addition on the cover page of another state in which the offering has been registered) the Form U-7 as so changed, revised or supplemented, clearly marked to show changes from the previously filed version, should be filed and cleared with the Office before use. If any of the changes or revisions are of such significance that they are material to the making of an investment decision by an investor, and if the minimum proceeds have not been revised, after filing with and clearance by the Office, the Disclosure Document on this Form U-7 as so changed, revised or supplemented should be recirculated to persons in this state that have previously subscribed, and they should be given the opportunity to rescind or reconfirm their investment.
- I. Options, warrants and similar rights to purchase securities constitute a continuous offering of the underlying securities during the exercise period and require the securities to be registered and the Disclosure Document on the Form U-7 to be kept continuously current throughout the exercise period through the use of the above amendment procedure or by means of a supplement, as appropriate. Upon any change, revision or supplement to the Disclosure Document, a copy must be promptly furnished to the holders of options, warrants and similar rights.
- J. Any and all supplemental selling literature or advertisements announcing the offering should be filed by the Company and cleared with the Office prior to publication or circulation within the state. An announcement should not be a sales motivation device and should normally contain no more than the following: (1) the name of the Company, (2) characterization of the Company as indicated on the Cover Page of the Disclosure Document, (3) address and telephone number of the company, (4) a brief indication in ten words or less of the Company's business or proposed business, (5) the number and type of securities offered and the offering price per security, (6) the name, address and telephone number of any selling agent authorized to sell the securities, (7) a statement that the announcement does not constitute an offer to sell or solicitation of an offer to purchase and that any such offer must be made by an official Disclosure Document, (8) how a copy of the Disclosure Document may be obtained, and (9) the Company's corporate logo. Clip and return coupons requesting a copy of the Disclosure Document are permitted in printed announcements. (For example, an announcement in "tombstone" format with a black-lined border and using the following language would ordinarily be acceptable: "50,000 shares, common stock; \$5 per share; (Logo) XYZ Corporation, a development stage database computer software company now conducting operations; Midtown, Michigan; Selling agent: ABC Securities, 1234 Main Street, Midtown, Michigan (517) 123-4567; This announcement does not constitute an offer to sell or the solicitation of an offer to buy the securities, which offer may be made only by means of an official Disclosure Document; A copy of the Disclosure Document may be obtained by contacting the selling agent at the above address and telephone number." Similarly, a classified advertisement using the following language would ordinarily be acceptable: "Common stock of XYZ Corporation, a development stage database computer software company now conducting operations, Midtown, Michigan. Price \$5 per share. Total offering 50,000 shares. This announcement does not constitute an offer to sell or the solicitation of an offer to buy the securities, which offer may be made only by means of an official Disclosure Document. A copy of the Disclosure Document may be obtained by contacting the Company, Industrial Park, Suite 12B, 456 Mill Road, Midtown, Michigan (517) 321-4321.")

The issuance of any but routine press releases or the granting of interviews to news media during, or at about the same time of, an offering could constitute indirect advertising, which if not precleared with the Office would be prohibited. Any unusual news article or news program featuring the Company during this period, particularly if present or future earnings, or the pending offering, are mentioned, could delay or cause suspension of the effectiveness of the registration and disrupt the offering. Consequently any such news article or news program, no matter by whom it may be initiated, should generally be discouraged during this period.

IV. Instructions as to Specific Captions and Questions

BE VERY CAREFUL AND PRECISE IN ANSWERING ALL QUESTIONS. GIVE FULL AND COMPLETE ANSWERS SO THAT THEY ARE NOT MISLEADING UNDER THE CIRCUMSTANCES INVOLVED. DO NOT DISCUSS ANY FUTURE PERFORMANCE OR OTHER ANTICIPATED EVENT UNLESS YOU HAVE A REASONABLE BASIS TO BELIEVE THAT IT WILL ACTUALLY OCCUR WITHIN THE FORESEEABLE FUTURE. IF ANY ANSWER REQUIRING SIGNIFICANT INFORMATION IS MATERIALLY INACCURATE, INCOMPLETE OR MISLEADING, THE COMPANY, ITS MANAGEMENT AND PRINCIPAL STOCKHOLDERS MAY HAVE LIABILITY TO INVESTORS. THE SELLING AGENTS SHOULD EXERCISE APPROPRIATE DILIGENCE TO DETERMINE THAT NO SUCH INACCURACY OR INCOMPLETENESS HAS OCCURRED, OR THEY ALSO MAY BE LIABLE.

- A. Cover Page. The Cover Page of the Disclosure Document is a summary of certain essential information and should be kept on one page if at all possible. For purposes of characterizing the Company on the cover page, the term "development stage" has the same meaning as that set forth in Statement of Financial Accounting Standards No. 7 (June 1, 1975).
- B. Risk Factors. The Company should avoid generalized statements and include only those factors which are unique to the Company. No specific number of risk factors is required to be identified. If more than 16 significant risk factors exist, add additional lines and number as appropriate. Risk factors may be due to such matters as cash flow and liquidity problems, inexperience of management in managing a business in the particular industry, dependence of the Company on an unproven product, absence of an existing market for the product (even though management may believe a need exists), absence of an operating history of the Company, absence of profitable operations in recent periods, an erratic financial history, the financial position of the Company, the nature of the business in which the Company is engaged or proposes to engage, conflicts of interest with management, arbitrary establishment of offering price, reliance on the efforts of a single individual, or absence of a trading market if a trading market is not expected to develop. Cross-references should be made to the Questions where details of the risks are described.
- C. Business and Properties. The inquiries under Business and Properties elicit information concerning the nature of the business of the Company and its properties. Make clear what aspects of the business are presently in operation and what aspects are planned to be in operation in the future. The description of principal properties should provide information, which will reasonably inform investors as to the suitability, adequacy, productive capacity and extent of utilization of the facilities used in the enterprise. Detailed descriptions of the physical characteristics of the individual properties or legal description by metes and bounds are not required and should not be given.

As to Question 4, if more than five events or milestones exist, add additional lines as necessary. A "milestone" is a significant point in the Company's development or an obstacle that the company must overcome in order to become profitable.

- D. Offering Price Factors. Financial information in response to Questions 5, 6 and 7 should be consistent with the Financial Statements. Earnings per share for purposes of Question 5 should be calculated by dividing earnings for the last fiscal year by the weighted average of outstanding shares during that year. No calculations should be shown for periods of less than one year or if earnings are negative or nominal. For purposes of Question 8, the "offering price" of any options, warrants or rights or convertible securities in the offering is the respective exercise or conversion price.
- E. Use of Proceeds. Use of net proceeds should be stated with a high degree of specificity. Suggested (but not mandatory) categories are: leases, rent, utilities, payroll (by position or type), purchase or lease of specific items of equipment or inventory, payment of notes, accounts payable, etc., marketing or advertising costs, taxes, consulting fees, permits, professional fees, insurance and supplies. Categories will vary depending on the Company's plans. Use of footnotes or other explanation is recommended where appropriate. Footnotes should be used to indicate those items of offering expenses that are estimates. Set forth in separate categories all payments that will be made immediately to the Company's executive officers, directors, and promoters, indicating by footnote that these payments will be so made to such persons. If a substantial amount is allocated to working capital, set forth separate subcategories for use of the funds in the Company's business.

If any substantial portion of the proceeds has not been allocated for particular purposes, a statement to that effect as one of the Use of Net Proceeds categories should be included together with a statement of the amount of proceeds not so allocated and a footnote explaining how the Company expects to employ such funds not so allocated.
- F. Plan of Distribution. In Question 26, if the proposed business of the Company requires a minimum amount of proceeds to commence, or to proceed with, the business in the manner proposed, there shall be established an escrow with a bank or savings and loan association or other similar depository institution acting as independent escrow agent with which shall be immediately deposited all proceeds received from investors until the minimum amount of proceeds has been raised. Any failure to deposit funds promptly into the escrow shall be grounds for enforcement proceedings against the persons involved. The date at which the funds will be returned by the escrow agent if the minimum proceeds are not raised shall not be later than one year from the date of effectiveness of the registration in this state. All interest generated from the escrow account shall be paid to investors.

- G. Capitalization. Capitalization should be shown as of a date no earlier than that of the most recent Financial Statements provided pursuant to Question 46. If the Company has mandatory redeemable preferred stock, include the amount thereof in "long term debt" and so indicate by footnote to that category in the capitalization table.
- H. Officers and Key Personnel of the Company. The term "Chief Executive Officer" means the officer of the Company who has been delegated final authority by the board of directors to direct all aspects of the Company's affairs. The term "Chief Operating Officer" means the officer in charge of the actual day-to-day operations of the Company's business. The term "Chief Financial Officer" means the officer having accounting skills who is primarily in charge of assuring that the Company's financial books and records are properly kept and maintained and financial statements prepared.
- The term "key personnel" means persons such as vice presidents, production managers, sales managers, or research scientists and similar persons, who are not included above, but who make or are expected to make significant contributions to the business of the Company, whether as employees, independent contractors, consultants or otherwise.
- I. Principal Stockholders. If shares are held by family members, through corporations or partnerships, or otherwise in a manner that would allow a person to direct or control the voting of the shares (or share in such direction or control-as, for example, a co-trustee) they should be set forth in a footnote to the "Number of Shares Now Held".
- J. Management Relationships, Transactions and Remuneration. For purposes of Question 39(b), a person directly or indirectly controls an entity if he is part of the group that directs or is able to direct the entity's activities or affairs. A person is presumptively a member of a control group if he is an officer, director, general partner, trustee or beneficial owner of a 10% or greater interest in the entity. In Question 40, the term "Cash" should indicate salary, bonus, consulting fees, non-accountable expense accounts and the like. The column captioned "Other" should include the value of any options or securities given, any annuity, pension or retirement benefits, bonus or profit-sharing plans, and personal benefits (club memberships, company cars, insurance benefits not generally available to employees, etc.). The nature of these benefits should be explained in a footnote to this column.
- K. Financial Statements. Attach to the Disclosure Document for the Company and its consolidated subsidiaries, a balance sheet as of the end of the most recent fiscal year. If the Company has been in existence for less than one fiscal year, attach a balance sheet as of the date within 135 days of the date of filing the registration statement. If the first effective date of state registration, as set forth on the Cover Page of this Disclosure Document, is within 45 days after the end of the Company's fiscal year and financial statements for the most recent fiscal year are not available, the balance sheet may be as of the end of the preceding fiscal year and there shall be included an additional balance sheet as of an interim date at least as current as the end of the Company's third fiscal quarter of the most recently completed fiscal year. Also attach, for the Company and its consolidated subsidiaries and for its predecessors, statements of income and cash flows and statements of changes in stockholders' equity for the last fiscal year preceding the date of the most recent balance sheet being attached, or such shorter period as the Company (including predecessors) has been in existence. In addition, for any interim period between the latest reviewed or audited balance sheet and the date of the most recent interim balance sheet being attached, provide statements of income and cash flows. Financial statements shall be prepared in accordance with generally accepted accounting principles. If the Company has not conducted significant operations, statements of receipts and disbursements shall be included in lieu of statements of income. Interim financial statements may be unaudited. All other financial statements shall be audited by independent certified public accountants; provided, however, that if each of the following four conditions are met, such financial statements in lieu of being audited may be reviewed by independent certified public accountants in accordance with the Accounting and Review Service Standards promulgated by the American Institute of Certified Public Accountants: (a) the Company shall not have previously sold securities by means of an offering involving the general solicitation of prospective investors by means of advertising, mass mailings, public meetings, "cold call" telephone solicitation or any other method directed toward the public, (b) the Company has not been previously required under federal or state securities laws to provide audited financial statements in connection with any sale of its securities, (c) the aggregate amount of all previous sales of securities by the Company (exclusive of debt financings with banks and similar commercial lenders) shall not exceed \$1,000,000.00 and (d) the amount of the present offering does not exceed \$1,000,000.00.

If since the beginning of its last fiscal year the Company has acquired another business, provide a pro forma combined balance sheet as of the end of the fiscal year, and a pro forma combined statement of income as if the acquisition had occurred at the beginning of the Company's last fiscal year, if any of the following exists: (a) the investments in and advances to the acquired business by the Company and its subsidiaries' (other than the acquired business) exceeds 20% of the Company's assets on its consolidated balance sheet at the end of the Company's last fiscal year, (b) the Company's and its subsidiaries' (other than the acquired business') proportionate share of the total assets (after intercompany eliminations) of the acquired business exceeds 20% of the assets on the consolidated balance sheet, or (c) the Company's and its subsidiaries' (other than the acquired business') equity in income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principle, of the acquired business exceeds 20% of such income of the Company and its consolidated subsidiaries for the Company's last fiscal year.

The financial statements should reflect all stock splits (including reverse stock splits), stock dividends and recapitalizations even if they have occurred since the date of the financial statements.

V. Exhibits

There shall be filed with the Office at the same time as the filing of the Form U-7 copies of each of the following documents, to the extent applicable, as exhibits to which the Office may refer in reviewing the Form U-7 and which will be available for public inspection by any person upon request.

1. Form of Selling Agency Agreement.
2. Company's Articles of Incorporation or other Charter documents and all amendments thereto.
3. Company's By-Laws, as amended to date.
4. Copy of any resolutions by directors setting forth terms and provisions of capital stock to be issued.
5. Any indenture, form of note or other contractual provision containing terms of notes or other debt, or of options, warrants, or rights to be offered.
6. Specimen of security to be offered, including any legend restricting resale.
7. Consent to service of process (Form U-2) accompanied by appropriate corporate resolution (Form U-2A).
8. Copies of all advertising or other materials directed to or to be furnished to investors in the offering.
9. Form of escrow agreement for escrow of proceeds. (See Section 304a(7)(i)).
10. Consent to inclusion in Disclosure Document of Accountant's report.
11. Consent to inclusion in Disclosure Document of Tax Advisor's opinion or description of tax consequences.
12. Consent to inclusion in Disclosure Document of any evaluation by a licensed attorney of any pending or anticipated litigation or administrative action by Counsel.
13. Form of any Subscription Agreement for the purchase of securities in this offering.
14. Opinion of Counsel. (See Section 304a(7)(n))
15. A list of the residence street addresses of Officers, Directors and principal stockholders.

Any questions regarding SCOR registration should be directed to: Office of Financial and Insurance Services, Division of Securities, 611 W. Ottawa St., P.O. Box 30701, Lansing, MI 48909-8201, phone (517) 373-9273 or toll-free at 1-877-999-6442.



Michigan Department of Labor & Economic Growth

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